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TODAY

THRIFTS & MORTGAGES

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Quote

There are a whole lot of people in New York and Boston and Chicago and Washington, D.C., who would love to live in San Diego and, quite frankly, it's a recruiting tool.

Kenneth J. Thygerson, head of Imperial Corp. of America, on the city's potential for thrifts [Page 3]

Unquote

Commercial Loan Growth Slows at Top Thrifts

By KENNETH J. HICKS

NEW YORK — Commercial loan portfolios maintained their strong growth last year at major thrift institutions although the rate of expansion slowed from 1985.

Total commercial loans outstanding at the top 100 thrift members of the Federal Savings and Loan Insurance Corp. totaled $16 billion at yearend 1986, up almost 43% from $11.2 billion at Dec. 31, 1985.

Over the 12 months from Sept. 30, 1984 to Sept. 30, 1985 — the period used in last year's survey — the top 100 thrifts posted a 73% gain in commercial loans outstanding.

Industry observers attribute the continued growth to several factors. Many of the largest thrifts are located in booming areas in the Southeast and Southwest. Also, the sizable gains for some can be attributed to the fact that commercial lending powers were not granted to thrifts until 1982. Thus, growth rates are calculated from a small base.

Top 5 Thrifts in Commercial Lending

Dec. 31, 1986 (Thousands of Dollars)

Old Stone Bank FSB, Providence, R.I.	$880,542
Goldome FSB, Buffalo, N.Y.	731,843
California FS&LA, Los Angeles	716,252
CenTrust Savings Bank, Miami	625,731
City Federal Savings Bank, Elizabeth, N.J.	615,448

These are among the findings of the *American Banker's* second survey of commercial lending at top thrift institutions. All data for this survey were taken from the quarterly financial reports submitted to the Federal Home Loan Bank Board. Rankings were provided by ADP Data Services, New York, from its computer tape of the Bank Board data base.

Commercial loans, as defined by the Bank Board, include all secured loans on commercial properties not qualifying as mortgage loans. Included are floor planning loans for automobiles or mobile homes. Retail auto loans are included only if autos are for commercial use. Unsecured commercial loans include all unsecured loans made for commercial purposes, including unsecured construction loans to builders for the purpose of constructing residential property. Also included are overdrafts on commercial demand deposits.

A total of 34 of the 100 thrifts reported commercial loan growth of 50% or more. Twelve of those were located in the Southeast, an area identified as one of the fastest growing in the nation. First Home Federal Savings & Loan Association, Greensboro, N.C., identified two major reasons for its loan growth — a favorable interest rates and the robust economy of its market.

Harry T. Barnett, senior vice president, corporate planning-develop-

Commercial: Page 21 ➳

A VIEW FROM OUTSIDE

MARTIN MAYER

Where Japan's Banks Now Stand

Second of a Series

THE situation here is very different from what it is in the United States," says Yoshitoki Chino, chairman of Daiwa Securities, Japan's second largest brokerage and investment house.

"There, banks are completely forbidden to own equity in nonfinancial corporations. Here, banks own 20% of the value of all the securities on the Tokyo Stock Exchange — much more than 20% of the companies with which they were once associated in the financial cliques of former days.

"For banks to be stockbrokers here would be an obvious conflict of interest," he says. "If they would sell out their holdings of shares and stand on the same level as the American banks; we would have no objection."

"Right after the war," says Nobuya Hagura, president of Dai-Dichi Kangyo Bank, the biggest in the world, "the securities firms had no standing in Japan. Under the influence of the occupation, our government tried to develop securities firms and protect them from the banks' activities. Now the securities firms don't need protection, but there is still that principle in the law."

One notes in passing that though both of these eminent gentlemen had transla-

Japan: Page 4 ➳

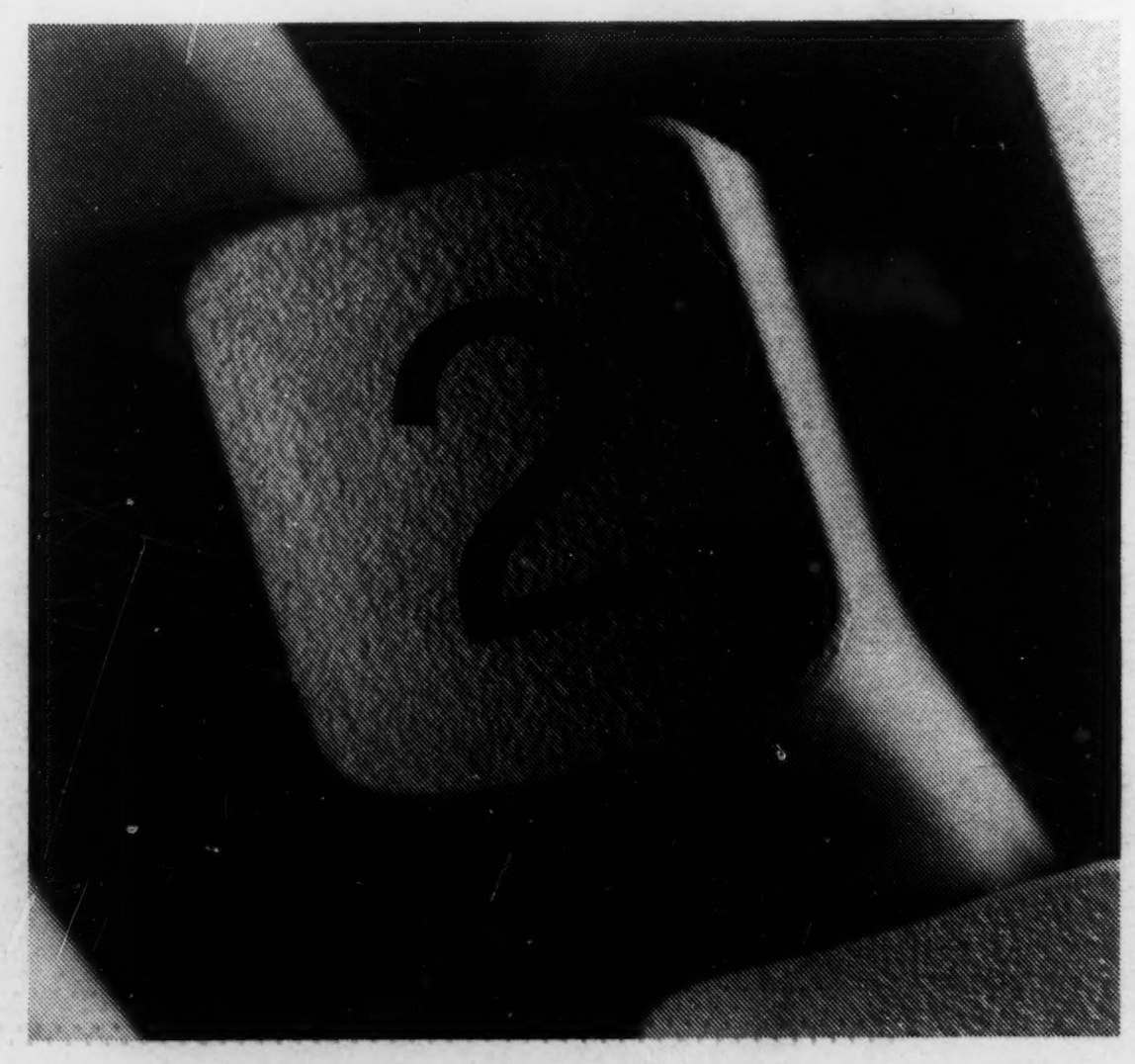
GAO Report Says Outlook Is Bleak For Ailing S&Ls

By JIM McTAGUE
Washington Bureau

WASHINGTON — Kid-glove treatment for ailing thrifts is not likely to help them recover, concludes a report from the General Accounting Office.

The study, prepared for Sen. William Proxmire, D-Wis., chairman of the Senate Banking Committee, concludes that institutions performing poorly in today's low-rate, low-inflation environment are unlikely to recover, regardless of the amount of regulatory and accounting leeway given to them by legislators and examiners. The General Accounting Office is the investigative

GAO Report: Page 18 ➳



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Top 100 Thrifts in Total Commercial Loans

Dec. 31, 1986, Compared with Dec. 31, 1985 (Dollar Figures in Thousands)

Compiled by American Banker Copyright 1987

Rank 1986		Total Commercial Loans 12/31/86	12/31/85	% Chg.	Interest on Commercial Loans 1986	1985	% Chg.	Gross Operating Income 1986	1985	Commercial Loans /Total Assets (%) 12/31/86	12/31/85	Int. Comm. Loans /Gross Oper. Inc. (%) 1986	1985
1	Old Stone Bank FSB, Providence, R.I.	880,542	730,336	20.57	66,433	60,511	9.79	289,903	245,010	25.07	26.12	22.92	24.70
2	Goldome FSB, Buffalo, N.Y.	731,843	570,183	28.35	68,665	38,502	78.34	1,329,840	1,235,917	5.69	4.95	5.16	3.12
3	California Federal S & L Assn., Los Angeles	716,252	599,577	19.46	53,196	58,412	-8.93	2,079,849	2,040,665	3.49	3.33	2.56	2.86
4	CenTrust Savings Bank, Miami	625,731	70,478	787.84	43,163	7,117	506.48	637,622	550,367	10.24	1.47	6.77	1.29
5	City Federal Savings Bank, Elizabeth, N.J.	615,448	410,347	49.98	49,466	40,928	20.86	1,032,667	953,244	5.89	5.11	4.79	4.29
6	Empire of America FSB, Buffalo, N.Y.	576,753	470,964	22.46	44,986	47,995	-6.27	637,869	646,076	9.13	7.63	7.05	7.43
7	Home Federal S & L Assn., San Diego, Calif.	532,183	338,173	57.37	43,812	30,865	41.95	1,214,520	1,194,119	4.46	3.43	3.61	2.58
8	CrossLand Savings FSB, Brooklyn, N.Y.	478,682	256,591	86.55	31,816	29,839	6.63	719,304	776,186	5.44	3.83	4.42	3.84
9	Lincoln S & L Assn., Los Angeles	311,088	0	N.A.	2,258	0	N.A.	373,899	365,170	8.63	0.00	0.60	0.00
10	Western S & L Assn., Phoenix, Ariz.	300,022	240,118	24.95	19,861	10,972	81.02	577,910	498,513	5.39	4.78	3.44	2.20
11	Glendale Federal S & L Assn., Calif.	263,768	218,064	20.96	20,695	12,082	71.29	1,646,745	1,479,007	1.51	1.54	1.26	0.82
12	Atlantic Financial Federal, Bala Cynwyd, Pa.	261,349	143,292	82.39	17,993	7,364	144.34	522,193	429,442	4.70	3.40	3.45	1.71
13	Sunbelt Savings Assn. of Texas, Dallas	261,149	266,579	-2.04	23,972	17,182	39.52	315,550	373,357	8.17	8.89	7.60	4.60
14	Great American First Savings Bank, San Diego, Calif.	243,292	215,459	12.92	12,867	13,242	-2.83	1,053,306	897,021	2.31	2.60	1.22	1.48
15	Great Lakes Federal S & L Assn., Ann Arbor, Mich.	239,504	155,827	53.70	19,969	14,497	37.75	298,216	273,097	8.90	6.48	6.70	5.31
16	Florida Federal S & L Assn., St. Petersburg, Fla.	235,380	260,009	-9.47	21,253	23,575	-9.85	487,938	530,923	4.28	4.99	4.36	4.44
17	Fortune Savings Bank, Clearwater, Fla.	234,392	113,024	107.38	14,189	10,911	30.04	233,862	216,261	9.78	5.54	6.07	5.05
18	First Nationwide Bank, FSB, San Francisco	226,028	0	N.A.	19,205	0	N.A.	1,343,491	1,243,158	1.41	0.00	1.43	0.00
19	AmeriFirst Federal S & L Assn. , Miami	221,578	133,184	66.37	17,304	10,488	64.99	440,176	509,381	5.52	3.01	3.93	2.06
20	Carteret Savings Bank, FA, Morristown, N.J.	221,283	300,409	-26.34	28,889	28,798	0.32	583,611	603,341	3.92	5.79	4.95	4.77
21	TCF Banking & Savings, FA, Minneapolis	215,973	128,567	67.98	15,635	14,015	11.56	579,461	556,412	3.46	2.46	2.70	2.52
22	American Pioneer Savings Bank, Orlando, Fla.	191,019	124,767	53.10	15,019	8,811	70.46	142,739	95,553	10.34	12.60	10.52	9.22
23	Great American First SB, FSB, Tucson, Ariz.	189,664	45,164	319.95	10,868	3,553	205.88	270,589	242,842	6.39	1.93	4.02	1.46
24	Investors S & L Assn., Millburn, N.J.	189,244	199,291	-5.04	20,903	21,372	-2.19	189,269	214,411	9.20	9.73	11.04	9.97
25	Freedom S & L Assn., Tampa, Fla.	179,897	204,630	-12.09	17,902	20,052	-10.72	237,250	321,380	8.27	7.87	7.55	6.24
26	Midwest Federal S & L Assn. of Minneapolis	179,097	128,455	39.42	13,801	5,217	164.54	319,728	291,645	5.50	4.27	4.32	1.79
27	Perpetual Savings Bank, FSB, McLean, Va.	175,415	114,344	53.41	8,726	11,241	-22.37	415,982	453,461	3.98	2.82	2.10	2.48
28	Commonwealth Savings Assn., Houston	174,407	45,995	279.19	3,018	3,033	-0.49	298,787	236,492	9.69	2.96	1.01	1.28
29	Horizon Financial, FA, Southampton, Pa.	172,628	117,121	47.39	14,699	7,258	102.52	227,944	197,700	7.13	5.78	6.45	3.67
30	University Savings Assn., Houston	172,078	149,487	15.11	15,566	1,786	771.56	382,319	433,503	4.37	3.89	4.07	0.41
31	MeraBank Federal Savings Bank, Phoenix, Ariz.	168,572	111,381	51.35	12,540	17,556	-28.57	628,153	592,364	2.69	2.15	2.00	2.96
32	Gibraltar Savings, Beverly Hills, Calif.	154,638	255,056	-39.37	21,898	29,805	-26.53	1,107,417	990,850	1.36	2.70	1.98	3.01
33	Vernon S & L Assn., Tex.	152,179	170,589	-10.79	14,994	12,925	16.01	80,825	190,061	11.30	14.89	18.55	6.80
34	Caguas-Central Federal Savings Bank, P.R.	135,311	71,442	89.40	8,711	6,243	39.53	128,492	112,003	9.71	6.33	6.78	5.57
35	Albuquerque Federal S & L Assn., N.M.	135,047	136,097	-0.77	14,315	12,676	12.93	209,245	192,925	6.43	8.00	6.84	6.57
36	First Federal Savings Bank, Santurce, P.R.	134,685	100,600	33.88	12,308	5,871	109.64	138,565	126,961	9.72	7.60	8.88	4.62
37	First Federal S & L Assn., Greenville, S.C.	131,644	120,208	9.51	14,359	10,525	36.43	204,222	201,113	7.07	6.75	7.03	5.23
38	Dollar Bank FSB, Pittsburgh	129,757	93,732	38.43	9,620	9,031	6.52	243,321	264,260	5.45	3.93	3.95	3.42
39	San Jacinto Savings Assn., Houston	125,711	90,414	39.04	14,216	12,499	13.74	331,918	303,834	4.64	3.61	4.28	4.11
40	Eastover Bank for Savings, Jackson, Miss.	124,716	0	N.A.	4,678	0	N.A.	39,019	28,831	24.03	0.00	11.99	0.00
41	American Diversified Savings Bank, Lodi, Calif.	124,621	10,736	1,060.78	2,749	45	6,008.89	-277,574	121,585	20.32	1.10	-0.99	0.04
42	Wilmington Savings Fund Society, FSB, Del.	124,218	109,641	13.30	14,722	9,899	48.72	99,151	92,989	11.59	10.89	14.85	10.65
43	Far West Federal Bank, Portland, Ore.	124,199	127,682	-2.73	14,585	14,117	3.32	225,505	269,418	5.51	5.72	6.47	5.24
44	Naples Federal S & L Assn., Fla.	118,886	125,750	-5.46	13,546	9,714	39.45	144,241	133,474	8.56	10.27	9.39	7.28
45	Southwest S & L Assn., Phoenix, Ariz.	118,382	67,207	76.15	8,863	6,173	43.58	215,136	213,939	5.67	3.30	4.12	2.89
46	Sandia Federal S & L Assn., Albuquerque, N.M.	116,214	65,106	78.50	6,255	3,503	78.56	112,061	109,282	9.80	6.43	5.58	3.21
47	Bank Western FSB, Denver	114,836	95,218	20.60	10,205	10,159	0.45	295,853	341,545	3.27	3.26	3.45	2.97
48	Pacific First Federal Savings Bank, Tacoma, Wash.	114,206	91,241	25.17	9,917	10,741	-7.67	406,218	320,058	2.79	2.71	2.44	3.36
49	Benjamin Franklin Savings Assn., Houston	113,758	79,379	43.31	8,820	13,461	-34.48	203,923	222,237	5.87	3.97	4.33	6.06
50	San Antonio Savings Assn., Tex.	106,136	92,251	15.05	15,767	15,719	0.31	243,641	241,757	4.06	4.04	6.47	6.50
51	Western Federal S & L Assn., Dallas	106,102	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	6.70	N.A.	N.A.	N.A.
52	First Minnesota Savings Bank, FSB, Minneapolis	101,467	N.A.	N.A.	8,970	N.A.	N.A.	281,280	N.A.	3.31	N.A.	3.19	N.A.
53	Professional Savings Bank, Coral Gables, Fla.	100,977	68,877	46.60	5,964	N.A.	N.A.	17,008	N.A.	50.41	42.03	35.07	N.A.
54	Metropolitan Federal S & L Assn., Nashville, Tenn.	98,275	65,884	49.16	8,470	5,902	43.51	109,371	103,493	9.45	6.72	7.74	5.70
55	Downey S & L Assn., Costa Mesa, Calif.	98,172	75,697	29.69	5,781	4,783	20.87	306,182	297,160	3.94	2.90	1.89	1.61
56	Great Southern S & L Assn., Springfield, Mo.	95,471	51,013	87.15	7,005	4,522	54.91	45,760	42,639	20.95	12.39	15.31	10.61
57	Eureka Federal S & L Assn., San Carlos, Calif.	93,154	128,581	-27.55	3,154	7,791	-59.52	162,066	171,955	5.84	7.66	1.95	4.53
58	Numerica Savings Bank, FSB, Manchester, N.H.	91,394	41,191	121.88	6,662	3,821	74.35	65,464	62,487	13.36	7.34	10.18	6.11
59	Dominion Federal S & L Assn., Tyson Corner, Va.	89,459	24,408	266.52	3,831	1,180	224.66	184,465	171,021	5.15	1.76	2.08	0.69
60	Security S & L Assn., Vineland, N.J.	84,782	89,222	-4.98	9,376	4,677	100.47	98,269	88,844	8.92	10.42	9.54	5.26
61	Columbia S & L Assn., Fair Lawn, N.J.	83,874	74,141	13.13	9,638	5,592	72.35	123,945	117,372	7.13	6.85	7.78	4.76
62	Commodore Savings Assn., Stamford, Tex.	82,391	80,402	2.47	7,714	5,804	32.91	5,271	93,324	10.10	9.83	146.35	6.22
63	American S & L Assn., Salt Lake City, Utah	79,734	87,652	-9.03	8,463	9,302	-9.02	299,264	297,894	2.78	3.09	2.83	3.12
64	Gill Savings Assn., Hondo, Tex.	79,119	75,883	4.26	13,303	10,430	27.55	133,109	188,120	4.89	5.23	9.99	5.54
65	First Savings Assn., Houston, Tex.	77,481	0	N.A.	1,890	3,318	-43.04	87,270	85,380	8.50	0.00	2.17	3.89
66	Capitol Federal S & L Assn., Aurora, Colo.	76,227	44,517	71.23	5,829	3,466	68.18	128,178	119,958	6.32	4.07	4.55	2.89
67	Savings Bank of Puget Sound, FSB, Seattle	74,743	60,759	23.02	4,717	N.A.	N.A.	140,027	N.A.	5.98	5.85	3.37	N.A.
68	Heritage S & L Assn., Richmond, Va.	74,646	43,310	72.35	8,363	3,916	113.56	66,825	64,692	11.06	7.76	12.51	6.05
69	Columbia Savings, FS & LA, Englewood, Colo.	73,663	0	N.A.	4,289	0	N.A.	258,612	298,738	2.71	0.00	1.66	0.00
70	Pioneer Savings Bank, Clearwater, Fla.	73,086	48,372	51.09	6,010	4,152	44.75	195,364	206,860	3.62	2.46	3.08	2.01
71	First Federal Savings Bank & Trust, Pontiac, Mich.	72,365	129,732	-44.22	10,334	9,258	11.62	141,746	126,319	5.60	9.54	7.29	7.33
72	Standard Federal Bank, Troy, Mich.	71,802	68,716	4.49	3,850	3,727	3.30	760,637	642,316	0.91	1.00	0.51	0.58
73	Century Federal S & L Assn., Pasadena, Calif.	70,715	9,556	640.01	1,626	0	N.A.	101,951	88,025	7.05	1.17	1.59	0.00
74	North American Savings Assn., Grandview, Mo.	70,674	33,634	110.13	5,130	2,898	77.02	46,783	46,240	16.37	7.90	10.97	6.27
75	First Home Federal S & L Assn., Greensboro, N.C.	67,798	7,452	809.80	5,704	640	791.25	129,619	100,605	5.16	0.76	4.40	0.64
76	Continental Federal Savings Bank, Fairfax, Va.	67,653	28,459	137.72	5,132	2,307	122.45	93,684	95,466	6.89	3.21	5.48	2.42
77	Baltimore Federal Financial, FSA	65,732	15,561	322.42	4,932	988	399.19	187,361	185,790	3.73	0.90	2.63	0.53
78	Citizens Savings Bank, FSB, Providence, R.I.	65,004	45,735	42.13	8,043	4,596	75.00	148,452	128,465	3.38	3.10	5.42	3.58
79	Empire Savings Building & Loan Assn., Denver	64,055	64,704	-1.00	5,552	4,556	21.86	206,714	211,972	3.09	3.31	2.69	2.15
80	Gem Savings Assn., Dayton, Ohio	62,028	40,746	52.23	5,383	3,407	58.00	174,551	170,951	3.87	2.69	3.08	1.99
81	Far West Savings & Loan Assn., Newport Beach, Calif.	59,198	142,778	-58.54	2,151	2,151	0.00	304,446	245,260	1.94	5.84	0.71	0.88
82	First Southern Federal S & L Assn., Mobile, Ala.	58,453	45,625	28.12	17,532	3,704	373.33	256,491	197,164	2.34	2.22	6.84	1.88
83	Boston Five Cents Savings Bank, FSB	57,798	22,832	153.14	4,015	1,923	108.79	199,061	177,767	2.99	1.38	2.02	1.08
84	Mechanics & Farmers Savings Bk, FSB, Bridgeport, Conn.	57,762	61,225	-5.66	10,781	5,594	92.72	107,959	90,117	5.58	7.52	9.99	6.21
85	Yankee Bank for Finance & Savings, FSB, Boston	57,577	54,457	5.73	6,070	4,116	47.47	83,180	81,953	9.91	9.41	7.30	5.02
86	Pacific Savings Bank, Costa Mesa, Calif.	56,431	113,518	-50.29	6,434	0	N.A.	169,557	200,429	3.40	7.84	3.79	0.00
87	Security Savings Assn., Texarkana, Tex.	56,108	46,656	20.26	5,731	3,345	71.33	38,105	58,174	13.02	10.42	15.04	5.75
88	Charter S & L Assn., Corpus Christi, Tex.	54,425	21,685	150.98	2,600	6	43,233.33	46,618	48,902	10.86	5.28	5.58	0.01
89	Metropolitan Federal Bank, FSB , Fargo, N.D.	53,408	55,418	-3.63	5,662	5,987	-5.43	218,290	177,644	2.78	3.45	2.59	3.37
90	ComFed Savings Bank, Lowell, Mass.	52,408	19,303	171.50	2,074	1,513	37.08	147,601	105,505	4.10	2.15	1.41	1.43
91	American Federal Bank, FSB, Greenville, S.C.	52,209	44,745	16.68	6,722	5,364	25.32	98,332	110,003	5.24	5.05	6.84	4.88
92	United First Federal S & L Assn., Boise, Idaho	51,780	43,224	19.79	4,771	4,728	0.91	40,649	59,178	14.84	8.87	11.74	7.99
93	Bankers First Federal S & L Assn., Augusta, Ga.	50,144	33,736	48.64	5,286	1,551	240.81	84,313	71,245	7.07	5.22	6.27	2.18
94	Occidental/Nebraska FSB, Omaha	49,610	35,214	40.88	4,262	2,036	109.33	68,471	74,104	7.10	5.12	6.22	2.75
95	Investors Savings Bank, Richmond, Va.	49,311	10,151	385.77	2,038	1,015	100.79	146,950	109,118	3.04	1.08	1.39	0.93
96	Columbia Banking Federal S & L Assn., Rochester, N.Y.	49,082	29,919	64.05	3,863	2,028	90.48	153,329	138,224	3.42	2.30	2.52	1.47
97	Guaranty Federal S & L Assn., Dallas	47,236	18,320	157.84	3,044	247	1,132.39	218,892	128,985	2.10	1.06	1.39	0.19
98	Midwest Federal Savings Bank, Minot, N.D.	46,551	16,893	175.56	3,853	764	404.32	99,080	96,658	4.73	1.93	3.89	0.79
99	Ensign Bank FSB, New York	46,391	44,134	5.11	5,677	5,991	-5.24	114,269	108,268	3.08	4.31	4.97	5.53
100	Commerce SA, Dallas	46,357	25,169	84.18	5,489	2,910	88.63	85,100	100,239	5.54	3.06	54.47	25.11

All data are from the Quarterly Financial Report to the Federal Home Loan Bank Board for FSLIC-insured institutions and were provided by **ADP Data Services, New York**, from their data base of FHLBB data. **Commercial loans** include both secured and unsecured loans. **Secured commercial loans** include all loans on commercial properties having a security interest but not qualifying as a mortgage loan. **Unsecured commercial loans** include all unsecured loans for commercial purposes. **Interest on Commercial Loans** is the gross interest earned for the year on commercial loans. **Gross Operating Income** is the sum of all interest and noninterest income earned for the year. **Commercial Loans/Total Assets** is total commercial loans at the end of the period expressed as a percentage of total assets at the end of the period. **Int. Comm. Loans/Gross Oper. Inc.** is gross interest earned on commercial lending expressed as a percentage of gross operating income for the year.

Dear Reader, How Are We Doing?

The *American Banker* wants to make sure our statistical tables of thrift earnings and thrift commercial lending meet your information needs. So would you spend a moment to give us some feedback? Please clip out this questionnaire and return to: William Zimmerman, Editor, American Banker, One State Street Plaza, New York, N.Y. 10004 (212) 943-5712.

(1.) How would you **change** the net income table or the commercial lending table to make them more useful? What would you add?

(2.) What do you like **best** about the tables?

(3.) What do you like **least** about them?

(4.) How do you use the tables in your work?

Name (optional)_____

Title_____

Company_____

Address_____

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SIA Appeal . . .

➳ Continued from Page 2

laws governing the nation's financial system, not to make the laws," said trade group president Edward I. O'Brien.

He charged that the board acted imprudently in denying the Securities Industry Association's petition for a stay. Given the 3-to-2 vote and dissent by Mr. Volcker and Fed Governor Wayne Angell, "prudence should have mandated granting a stay," Mr. O'Brien said.

He noted that in March the Senate had voted to support a moratorium on any regulatory action that would allow banks to expand their securities activities, pending a comprehensive review of the nation's financial system.

"By denying our request for a stay, in spite of likely congressional review of banking laws and pending court action to determine the legality of the decision, the Fed is encouraging marketplace changes of questionable legality," Mr. O'Brien said. ■

Commercial Loan Growth Slows at Top Thrifts

➳ Continued from Page 1

ment, said First Home has been "very careful in selection of businesses and areas we deal with. We are located in some of the fastest growing areas in North Carolina."

Mr. Barnett said that First Home has not been using advertising to bolster its commercial lending activities. "We have an active call program and we do refinancing of existing loans as well as new lending. We're not offering the lowest rates, just good packages." He said the thrift has been engaged in lending for shopping centers, apartment buildings and condominiums.

He described First Home's lending as "progressive" and administered by a "well-trained staff." He said the thrift "deals with quality business. We track area economies, judge an area's vacancy rate to see if it's going soft. We don't want to end up like a Texas bank."

CenTrust Savings Bank of Miami, Florida's largest savings institution, was another large gainer in 1986. CenTrust reported $625.7 million in commercial loans at yearend, a 788% jump. Gross operating revenues for all of 1986 increased 16%. Interest on commercial loans as of percent of gross operating income grew to 10.2% from less than 2% a year earlier.

In a release, CenTrust attributed its revenue improvement to loans.

"Strong growth in loans, combined with a favorable interest rate environment, produced the continuing improvement in net interest income," said David L. Paul, CenTrust chairman and chief executive officer.

At all FSLIC-insured thrifts, commercial loans increased 51.7% in 1986, to $22.1 billion. That compares with an increase of 33.4% in 1985, according to the Bank Board.

Old Stone Bank, Providence, R.I., remained the leader in commercial lending with $880.5 million, an increase of 20.6% from the previous year. Old Stone was followed by Goldome, Buffalo, N.Y., which reported $731.8 million, up 28.4%; California Federal Savings and Loan Association, Los Angeles, with $716.3 million, a rise of 19.5%; and CenTrust Savings Bank, with $625.7 million, up 788%. ■

North Dakota Bankers Announce Key Speakers

MINOT, N.D. — Speakers at the annual convention of the North Dakota Bankers Association, to be held here June 15-16, will include *Time* magazine columnist Hugh Sidey, network journalist Jerry Levin, who was held hostage by Arab terrorists, and Oklahoma Gov. George Nigh.

Also scheduled to be on the two-day program are Thomas Rideout, treasurer and senior vice president of the American Bankers Association; James Vining, president of Vining-Sparkes Securities Inc. of Memphis; Georgia Congressman Doug Barnard Jr.; and North Dakota Bankers Association president-elect John W. Pierson, president of Norwest Bank, Minot.

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- **Annotations,** when necessary, directly following the pertinent paragraph or article of the form, explanations of the meaning and significance of the provision. In addition, you get suggestions for alternative language to help you adapt each form to your specific needs.

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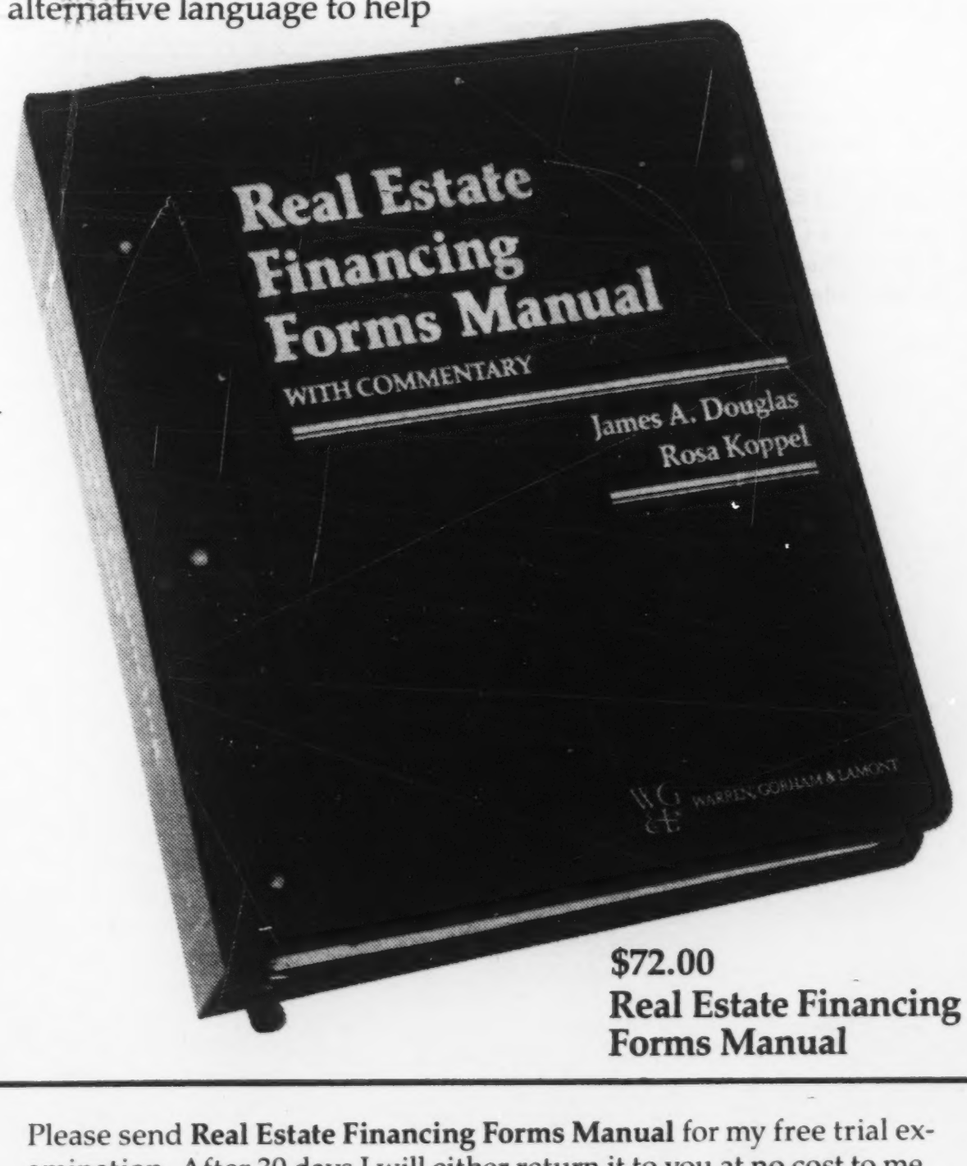

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Top 100 Thrifts in Net Income

In Order of 1986 Net Income, Compared with 1985

Compiled by American Banker Copyright 1987

Rank 1986		Net Income for Full Year 1986	1985	% Chg.	Rank 1985	Assets 12/31/86	R.O.A. 1986
1	Home Savings of America, FA, Irwindale, Calif.	336,730,000	236,311,000	42.49	1	27,789,661,000	1.21
2	Great Western Bank, FSB, Beverly Hills	300,243,000	203,857,000	47.28	2	27,405,368,000	1.10
3	Columbia Savings & Loan Assn., Beverly Hills	193,526,000	122,277,525	58.27	6	10,222,652,000	1.89
4	World Savings, FS&LA, Oakland, Calif.	183,010,000	159,375,000	14.83	4	12,439,262,000	1.47
5	California Federal Savings & Loan Assn., Los Angeles	143,400,000	115,400,000	24.26	7	20,540,400,000	0.70
6	Dime Savings Bank of New York FSB	130,612,000	7,037,000	1,756.08	...	8,366,595,000	1.56
7	Franklin Savings Assn., Ottawa, Kan.	119,971,000†	33,898,000†	253.92	30R	6,036,487,000	1.99
8	Glendale Federal Savings & Loan Assn., Calif.	111,244,000†	69,194,000†	60.77	12R	17,451,589,000	0.64
9	First Nationwide Bank, FSB, San Francisco	104,183,000	75,769,000	37.50	10	15,044,316,000	0.69
10	Home Federal Savings & Loan Assn. of San Diego, Calif.	103,358,000	72,786,000	42.00	11	12,074,620,000	0.86
11	CrossLand Savings FSB, Brooklyn, New York	101,232,000	148,385,000	-31.78	5	10,095,697,000	1.00
12	American Savings & Loan Assn., Stockton, Calif.	95,989,000	84,254,000	13.93	8	33,933,294,000	0.28
13	Great American First Savings Bank, San Diego, Calif.	93,745,000	49,516,000	89.32	20	13,064,815,000	0.72
14	Green Point Savings Bank, Brooklyn, New York	91,005,789	49,014,921	85.67	21	3,091,464,072	2.94
15	Coral Gables Federal Savings & Loan Assn., Fla. (a)	88,193,663	10,378,647	749.76	...	2,369,787,383	3.72
16	Gibraltar Savings Assn., Houston	82,211,365	169,800,000	-51.58	3	4,707,511,800	1.75
17	Long Island Savings Bank FSB, Syosset, N.Y.	80,005,000	46,087,000	73.60	22	5,635,827,000	1.42
18	First Federal of Michigan, Detroit	73,022,629	55,679,543	31.15	17	11,271,916,424	0.65
19	Washington Mutual Savings Bank, Seattle	70,653,846	18,855,000	274.72	55	5,392,597,000	1.31
20	Standard Federal Bank, Troy, Mich.	66,502,760	68,011,482	- 2.22	13	6,736,680,682	0.99
21	Empire of America FSB, Buffalo, N.Y. (b,c)	66,338,000	10,774,000	515.72	...	9,100,000,000	0.73
22	Anchor Savings Bank FSB, Northport, N.Y. (d)	60,822,000	26,209,000	132.07	40	7,359,381,000	0.83
23	United Savings Assn., Houston	60,287,000	10,964,000	449.86	...	5,988,566,000	1.01
24	Citicorp Savings, FS&LA, San Francisco	59,873,000	44,768,000	33.74	24	4,978,642,000	1.20
25	Champion Federal Savings & Loan Assn., Bloomington, Ill.	59,041,000	17,091,000	245.45	65	1,975,378,000	2.99
26	Downey Savings & Loan Assn., Costa Mesa, Calif.	57,154,846	52,757,661	8.33	19	2,481,734,397	2.30
27	Goldome FSB, Buffalo, N.Y. (b,e)	52,880,000	21,869,000	141.80	47r	14,669,199,000	0.36
28	CenTrust Savings Bank, Miami	51,848,000	36,636,000	41.52	27	6,167,095,000	0.84
29	Lincoln Savings & Loan Assn., Irvine, Calif.	50,760,000	79,850,000	-36.43	9	3,605,217,000	1.41
30	Coast Savings & Loan Assn., Los Angeles	50,400,000	20,383,869	147.25	51	9,725,362,000	0.52
31	American Savings & Loan Assn. of Florida, Miami (a)	50,242,000	(33,243,000)	251.14	...	2,610,774,000	1.92
32	Imperial Savings Assn., San Diego, Calif.	47,510,000	(11,379,843)	517.49	...	8,911,820,000	0.53
33	Carteret Savings Bank, FA, Morristown, N.J. (a)	46,091,000	25,222,000	82.74	42	5,541,090,000	0.83
34	People's Bank, Bridgeport, Conn.	45,668,000	33,612,000	35.87	30	4,956,668,000	0.92
35	Western Savings & Loan Assn., Phoenix, Ariz.	44,196,778	37,749,000	17.08	26	5,593,209,327	0.79
36	Guardian Savings & Loan Assn., Houston	43,787,262	63,809,881	-31.38	15	2,589,666,193	1.69
37	Gibraltar Savings, Beverly Hills	40,616,000	46,058,000	-11.82	23	11,406,157,000	0.36
38	American Savings Bank FSB, New York	40,570,000	19,109,000	112.31	54	3,833,200,000	1.06
39	Northeast Savings, FA, Hartford, Conn.	39,446,000†	30,020,000†	31.40	33R	5,845,804,000	0.61
40	Washington Federal Savings & Loan Assn., Seattle	39,291,000	28,719,000	36.81	35	1,310,022,000	3.00
41	Uptown Federal Savings FA, Niles, Ill.	39,288,000	55,460,000	-29.16	19r	1,098,162,000	3.84
42	Union Federal Savings Bank, Indianapolis, Ind.	39,196,000†	21,851,000†	79.38	47r	707,148,000	5.54
43	San Jacinto Savings Assn., Houston	38,577,037	18,020,061	114.08	59	2,709,356,252	1.42
44	Citicorp Savings of Florida, FS&LA, Miami	38,566,000	30,647,000	25.84	32	2,947,940,000	1.31
45	City Federal Savings Bank, Elizabeth, N.J.	37,524,000	62,110,000	-39.58	16	10,728,053,000	0.35
46	Cragin Federal Savings & Loan Assn., Chicago	36,328,390	25,423,906	42.89	41	1,862,983,566	1.95
47	Third Federal Savings & Loan Assn., Cleveland	36,211,248	21,007,611	72.37	48	1,721,660,699	2.10
48	Capitol Federal Savings & Loan Assn., Topeka, Kan.	33,253,558	24,549,959	35.45	43	2,494,514,607	1.33
49	Greater New York Savings Bank, New York	32,537,000	18,022,000	80.54	58	2,299,945,000	1.41
50	East River Savings Bank, New York	31,522,390	18,061,000	74.53	57	2,453,117,950	1.28
51	Citicorp Savings of Illinois, FS&LA, Chicago	31,515,000	7,569,214	316.36	...	5,527,563,000	0.57
52	East New York Savings Bank, New York	30,710,374	16,056,410	91.27	68	1,515,526,085	2.03
53	Fidelity Federal S & L Assn., Glendale, Calif.	30,557,000	27,514,000	11.06	37	3,294,905,000	0.93
54	Home Savings Bank, Brooklyn, New York	30,062,128	13,039,408	130.55	90	1,461,161,083	2.06
55	Georgia Federal Bank, FSB, Atlanta	29,703,000	20,064,000	48.04	53	3,214,514,000	0.92
56	Homestead Savings, FS&LA, San Francisco	29,444,563	14,168,000	107.82	81	5,492,379,681	0.54
57	Emigrant Savings Bank, New York	28,452,749	3,737,814	661.21	...	3,514,356,932	0.81
58	Citizens Savings Bank FSB, Providence, R.I.	28,290,310	20,669,006	36.87	50	1,927,340,005	1.47
59	Home Owners Federal Savings & Loan Assn., Boston	28,025,000	10,819,000	159.04	...	1,388,222,000	2.02
60	Benjamin Franklin Federal S & L Assn., Portland, Ore.	27,926,982	8,071,956	245.98	...	4,430,535,792	0.63
61	Williamsburgh Savings Bank, Brooklyn, New York	27,530,000	(10,209,290)	369.66	...	2,330,027,000	1.18
62	People's Heritage Federal Savings & Loan Assn., Salina, Kan.	27,374,000	17,860,088	53.27	61	1,642,546,000	1.67
63	Seamen's Bank for Savings FSB, New York	26,954,000	2,274,000	1,085.31	...	3,315,240,000	0.81
64	Manhattan Savings Bank, New York	26,516,015	20,318,238	30.50	52	3,018,622,531	0.88
65	Talman Home Federal Savings & Loan Assn., Chicago	26,434,000	244,000	10,733.60	...	5,699,630,000	0.46
66	Astoria Federal Savings & Loan Assn., Queens, New York	25,999,288	15,314,928	69.76	74	2,571,270,264	1.01
67	Columbia Banking Federal S & L Assn., Rochester, N.Y.	25,703,527	11,700,940	119.67	...	1,433,474,000	1.79
68	ComFed Savings Bank, Lowell, Mass.	24,200,000†	10,990,000	120.20	...	1,283,821,000	1.88
69	Howard Savings Bank, Newark, N.J.	24,049,000	16,024,000	50.08	70	4,294,392,000	0.56
70	Pacific First Federal Savings Bank, Tacoma, Wash.	23,470,000	(9,911,000)	336.81	...	4,096,568,000	0.57
71	Investors Savings & Loan Assn., Millburn, N.J.	23,430,860	34,128,461	-31.35	29	2,056,799,031	1.14
72	Far West Savings & Loan Assn., Newport Beach, Calif.	23,129,000	16,054,000	44.07	69	3,025,187,000	0.76
73	Society for Savings, Hartford, Conn.	23,036,000	14,294,000	61.16	80	2,948,366,000	0.78
74	Meritor Savings Bank, Philadelphia	22,920,000	64,618,000	-64.53	14	18,447,272,000	0.12
75	Transohio Savings Bank, FSB, Cleveland	22,679,000	15,592,000	45.45	73	5,062,000,000	0.45
76	Perpetual Savings Bank, FSB, McLean, Va. (f)	22,655,000	21,120,169	7.27	47	4,407,268,000	0.51
77	Albany Savings Bank FSB, N.Y.	22,525,537	9,788,834	130.11	...	1,776,671,047	1.27
78	Central Federal Savings, FSB, Long Beach, N.Y.	22,507,212	3,722,994	504.55	...	899,269,677	2.50
79	Apple Bank For Savings, New York	22,487,000	11,165,000	101.41	...	1,908,231,000	1.18
80	Southwest Savings & Loan Assn., Phoenix, Ariz.	22,460,014	8,251,594	172.19	...	2,088,141,000	1.08
81	Great Lakes Federal S & L Assn., Ann Arbor, Mich.	22,233,732	12,356,393	79.94	97	2,691,794,278	0.83
82	Metropolitan Federal Bank FSB, Fargo, N.D.	22,223,000	10,341,000	114.90	...	1,923,960,000	1.16
83	San Francisco Federal Savings & Loan Assn.	22,132,000	16,135,681	37.16	67	2,345,742,000	0.94
84	Collective Federal S & L Assn., Egg Harbor City, N.J.	21,750,780	11,530,000	88.65	...	1,559,626,000	1.39
85	Farm & Home Savings Assn., Nevada, Mo.	21,738,996	13,771,145	57.86	83	3,298,358,490	0.66
86	TCF Banking & Savings, FA, Minneapolis	21,401,000	15,272,000	40.13	76	6,517,650,000	0.33
87	Jamaica Savings Bank FSB, Lynbrook, N.Y.	21,240,967	11,085,752	91.61	...	1,381,033,150	1.54
88	St. Bernard Federal Savings & Loan Assn., Chalmette, La.	20,872,000†	(2,382,000)†	876.24	...	858,377,000	2.43
89	Bayamon Federal Savings & Loan Assn., P.R.	20,439,740	12,692,000	61.04	94r	1,105,869,839	1.85
90	Citizens Federal Savings & Loan Assn., Dayton, Ohio	20,361,359	14,650,306	38.98	79	2,261,115,804	0.90
91	St. Paul Federal Bank for Savings, Chicago	20,060,000	11,732,363	70.98	...	2,395,382,000	0.84
92	Peoples Westchester Savings Bank, Hawthorne, N.Y.	19,896,000	2,883,451	590.01	...	1,412,706,000	1.41
93	Commercial Federal Savings & Loan Assn., Omaha, Neb.	19,483,000†	12,802,000	52.19	93	3,329,508,000	0.59
94	Old Stone Bank FSB, Providence, R.I.	19,465,000	17,897,000	8.76	60	3,512,277,000	0.55
95	Sacramento Savings & Loan Assn., Calif.	19,434,342	18,606,977	4.45	56	2,064,691,897	0.94
96	Rochester Community Savings Bank, N.Y.	19,408,000	23,239,000	-16.49	46	3,137,856,000	0.62
97	Atlantic Financial Federal, Bala Cynwyd, Pa. (g)	19,168,000	12,636,000	51.69	94	5,979,325,000	0.32
98	Bowery Savings Bank, New York	18,887,000	(38,400,000)	149.18	...	6,303,939,000	0.30
99	Fidelity New York, FSB, Floral Park, N.Y.	18,688,485	23,704,144	-21.16	44	1,608,174,017	1.16
100	First Southern Fed. Savings & Loan Assn., Mobile, Ala.	18,636,000	10,143,614	83.72	...	2,535,435,000	0.74

Net Income is total income (operating plus nonoperating) minus total expenses (operating, nonoperating, and income taxes) for calendar years 1986 and 1985, unless otherwise noted. The bulk of the data are from American Banker questionnaires. Federal Home Loan Bank Board were used for thrifts who did not report full-year earnings to American Banker. A dagger (†) indicates FHLBB data were used. **FHLBB data— which are the sum of current net income for the four quarters of the year— were provided by ADP Data Services, New York . ROA**— return on assets, or net income for 1986 divided by total assets on 12/31/86. **(a)**— Net income is for fiscal year-ended 9/30. **(b)**— Net income for 1985 and 1986 are on a consolidated GAAP ("generally accepted accounting principles") basis. **(c)**— In last year's listing, using unconsolidated, regulatory net income for 1985, Empire of America FSB, Fort Worth, ranked 34th and Empire of America FSB, Buffalo, ranked 63rd with $28.8 million and $17.8 million, respectively. **(d)**— 1985 net income is for last six months of the year. **(e)**— In last year's listing, based on unconsolidated, regulatory net income for 1985, Goldome FSB ranked 98th with $12.3 million. **(f)**— Net income is for fiscal year-ended 10/31. **(g)**— 1985 net income is for fiscal year ended 9/30. **(r)**— Rank institution would have had, if data were available.**(R)— Revised rank based on FHLBB data.** **( )**— A loss.

Who's News

The well-traveled road from the Federal Home Loan Mortgage Corp. offices in Washington, D.C., to the offices of Imperial Corporation of America in San Diego had another passenger this week, as **Michael J. Lea** became the fifth Freddie Mac official in the past two years to join the management team at Imperial.

The exodus began in September 1985, when Freddie Mac president Kenneth J. Thygerson left the government mortgage agency to become president and chief executive officer of Imperial, a $9.8 billion-asset thrift holding company. Three other Freddie Mac officers soon joined Mr. Thygerson: Kevin E. Villani, Imperial's chief financial officer; Stephen G. Haines, chief administrative officer; and Gary Palmer, head of corporate finance.

Michael J. Lea

Mr. Lea, 37, remained behind. "They didn't really have a spot for me when they first went out," he said.

While Mr. Thygerson's new management team began the process of turning Imperial's red ink into profits, Mr. Lea took over Mr. Villani's job as Freddie Mac chief economist. But during the past couple of months, Mr. Lea said, he and Mr. Villani have run into each other several times as speakers at the same conferences, and the new position at Imperial opened up for Mr. Lea.

He will become senior vice president of financial and economic analysis for Imperial. "Mike's knowledge of the capital and secondary markets and his experience in financial analysis will be instrumental in furthering ICA's profit goals," Mr. Thygerson said. "He will be responsible for developing our pricing strategy to insure the profitability of every ICA product line."

Mr. Lea joined Freddie Mac in 1983 as a senior economist. Before that, he was an associate professor in the department of consumer economics and housing at Cornell University, Ithaca, N.Y. He also served as a staff member for the President's Commission on Housing in 1982-83, and was a Brookings Institution economic policy fellow at the U.S. Department of Housing and Urban Development in 1981-82.

Also Noteworthy...

R. Keith Pedigo, an employee with the Veterans Administration since 1971, has been appointed director of the agency's Loan Guaranty Service, which manages its national home loan program. He succeeds **Robert M. O'Toole,** who resigned in April to join the Mortgage Bankers Association of America.

Maureen D. McCarthy has been appointed a senior vice president of American Savings Bank FSB, New York. She was previously a vice president in Citibank's international private banking division.

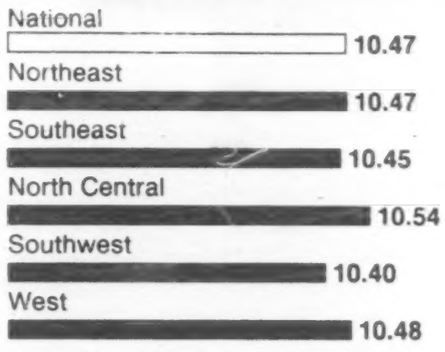
Frank Whelan has been named vice president of the Travelers Mortgage Services St. Louis wholesale division. He was formerly president of Citicorp Homeowners Services Inc., St. Louis.

Scott R. Christensen has been named senior executive vice president and chief operating officer of State Savings FA, Flushing, N.Y. He was previously senior vice president of administration and operations for City Consumer Services Inc., Somerset, N.J.

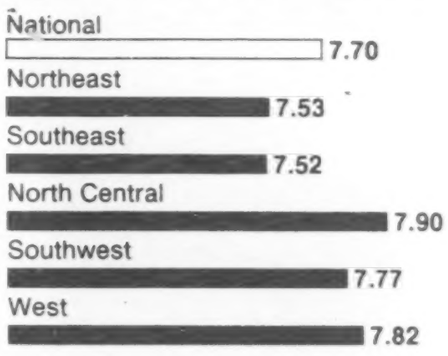
— **Mark Basch**

Mortgage Database

Fixed-Rate Mortgages



Adjustable-Rate Mortgages



Mortgage data for the week ended May 1 provided by Federal Home Loan Mortgage Corp. Fixed-rate mortgages are 80% loan-to-value conventional 30-year mortgages. Adjustable-rate mortgages are one-year Treasury indexed conventional 30-year mortgages.

Selected Interest Rates

6-Month Treasury Bills	6.14%
1-Year Treasury Bills	6.76%
3-Year Treasury Notes	7.71%
5-Year Treasury Notes	7.92%

Average rates for the week ended May 1 compiled by the Federal Reserve Board.

Five Big California Institutions Head List of Nation's Most Profitable Thrifts

By LINDA ELLIS

FIVE large California thrifts took the top five positions in *American Banker's* annual survey of net income at thrift institutions.

Home Savings of America FA, the main subsidiary of H.F. Ahmanson & Co. was the leader for the second year in a row. Irwindale, Calif.-based Home Savings was followed by Great Western Bank FSB, Beverly Hills; Columbia Savings & Loan Association, also Beverly Hills; World Savings Federal Savings & Loan Association, Oakland, and California Federal Savings & Loan Association, Los Angeles.

Other survey findings showed:

• The leaders in earnings rise by percentage were Talman Home Federal Savings & Loan Association, Chicago; Dime Savings Bank of New York FSB; Seamen's Bank for Savings FSB, New York; St. Bernard Federal Savings & Loan Association, Chalmette, La., and Coral Gables Federal Savings & Loan Association, Coral Gables, Fla. Talman, Illinois' largest thrift, is a one-time "phoenix" association that converted to a stock association and has rebounded.

Top 100 Thrift Earners
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• Hit by the sharpest percentage drop in net income were Meritor Savings Bank, Philadelphia; Gibralter Savings Association, Houston; City Federal Savings Bank, Elizabeth, N.J.; Lincoln Savings & Loan Association, Irvine, Calif., and CrossLand Savings FSB, Brooklyn. Meritor restructured in 1986, reducing reliance on gains from the sale of loans and investments.

• In the category of return on assets, the winners were: Union Federal Savings Bank, Indianapolis; Uptown Federal Savings FA, Niles, Ill.; Coral Gables Federal; Washington Federal Savings & Loan Association, Seattle; and Champion Federal Savings & Loan Association, Bloomington, Ill. Jerry VonDeylen, Union Federal's senior vice president and managing officer attributed the healthy 5.54% return to a "highly successful" mortgage banking operation.

• Lowest ROAs among the top 100 earners were recorded by Meritor Savings; American Savings & Loan Association, Stockton, Calif.; Bowery Savings Bank, New York; Atlantic Financial Federal, Bala-Cynwyd, Pa.; and City Federal.

□□□

Citing "imprudent, high-risk lending" and sour real estate markets in some areas of the nation, a leading bank consulting firm reported this week that annual earnings at U.S. savings and loan associations dropped 53.5% nationwide in 1986.

Annual combined earnings were $2 billion, down from $4.3 billion for 1985.

The nation's thrifts, hit by major loan quality problems, particularly in the Southwest, posted the overall earnings drop despite improving interest spreads, said Sheshunoff & Co., Austin, Tex.

Top Profitable Thrifts

Ranked by 1986 net income in millions

Home Savings of America FA Irwindale, Calif.	**$336.7**
Great Western Bank FSB Beverly Hills	**$300.2**
Columbia Savings & Loan Assn. Beverly Hills	**$193.5**
World Savings FSB&A Oakland, Calif.	**$183.0**
California Federal Savings & Loan Los Angeles	**$143.4**

The country's 3,235 federally insured thrifts reported a return on average assets of 0.17% for the year, the worst since 1982 and down from the 1985 rate of 0.40%. Return on assets is net income, including securities transactions and nonrecurring items, as a percentage of total assets. It is considered a basic yardstick on profitability.

Twenty S&Ls were closed last year, up from 10 the year before. The number of FSLIC-assisted mergers and acquisitions increased to 34, up from 22 in 1985. FSLIC management consignments totaled 46 in 1986, up from 25.

"The major problems facing the savings industry today focus on the activities of a small minority of S&Ls, with loan quality the most pressing problem," said Alex Sheshunoff, the company's president, noting that dangerous lending practices, excessive loan growth, and deflation of real estate values in some markets will cost "tens of billions of dollars" before the crisis is over.

Of the 20 states with the highest ROA, 16 were east of the Mississippi River. Seventeen of the 20 poorest performing states for ROA were in the West.

Repossessed assets for the year continued to rise rapidly, the Sheshunoff report said, another sign of industry troubles. Nationally, repossessed assets as a percentage of total assets was 1.11%, up from .76%. The dollar figure was $13.5 billion, up 59% from the year prior.

Texas, with $3.1 billion in repossessed assets, accounted for 62% of the national increase in that category.

Mr. Sheshunoff identified three emerging tiers of S&Ls:

• Long-term winners that early on adapted to a variable-rate environment and kept consistently good asset quality through the troubled years.

• "Low interest rate wonders" that survived high rates and how have large portfolios of high-yielding fixed rate loans.

• "Major losers" that bet heavily on commercial real estate and land acquisition in the Southwest.

On the plus side, the spread between yields (interest income) and rates (interest expense) continued to improve nationally last year, at 1.55% up from 1.31% in 1985. ■

Agencies Undaunted on Stripped Issues

Mortgage Markets

The Federal Home Loan Mortgage Corp., which made its first offering of stripped mortgage securities less than three weeks ago, said a recent $250 million loss at Merrill Lynch & Co. in deals involving these volatile securities would not deter it from continuing in the stripped mortgage securities market. "There is no change in our plans at this point," said a spokeswoman.

Stripped mortgage-backed securities are instruments that separate the principal and interest payments from a mortgage loan into two classes — an interest-only and a principal-only class.

The Federal National Mortgage Association, which invented stripped mortgage securities last June and has been active in the stripped securities market for about a year, closely controls the issuance of its securities by dealers. Jayne Shontell, a vice president for mortgage-backed securities sales and marketing, said Fannie Mae keeps its deals relatively small — typically between $200 million and $300 million — making them easier to distribute. In contrast, the stripped deal brought by Merrill was close to $1 billion.

Stripped securities are issued only "as the market can withstand it," Ms. Shontell said. "I've made dealers wait as much as two to three weeks because I didn't think the market was ready," she said.

Fannie Mae also requires that dealers who wish to sell stripped securities through its conduit presell "a good part" of whichever piece is likely to prove more difficult to sell. In the current interest rate environment, with rates going higher, that means the principal-only portion, she said. Several months ago, it was the interest-only portion that dealers found hard to sell.

Fannie Mae has been the dominant player in the stripped mortgage-backed market, issuing about $6 billion of these securities. Analysts estimate the total stripped market to be between $8.4 billion and $11 billion.